

**Information Technology Department
Budget No. 112
Senate Bill No. 2021; House Bill No. 1178**

	FTE Positions	General Fund	Other Funds	Total
2017-19 legislative appropriation	344.30	\$20,532,334	\$224,566,988	\$245,099,322
2015-17 legislative appropriation	<u>350.30</u>	<u>26,078,145</u>	<u>151,713,039</u>	<u>177,791,184</u>
2017-19 appropriation increase (decrease) to 2015-17 appropriation	(6.00)	(\$5,545,811)	\$72,853,949	\$67,308,138

Item Description

FTE position changes - The 2017 Legislative Assembly authorized the Information Technology Department (ITD) a total of 344.30 FTE positions, a decrease of 6 FTE positions from the 2015-17 biennium authorized level of 350.30 FTE positions. The Legislative Assembly removed 1 FTE EduTech Director position, 1 FTE project manager II position, 1 FTE programmer position, and 3 FTE programmer analyst I positions.

One-time funding - In Section 3 of 2017 Senate Bill No. 2021, the Legislative Assembly identified \$43.9 million of one-time funding to ITD from special funds for a health information network expansion project and an electronic payment processing system.

In Section 7 of 2017 House Bill No. 1178, the Legislative Assembly authorized the ITD to obtain a loan of \$15 million from the Bank of North Dakota and appropriates the funds to the department for the statewide interoperable radio network (SIRN). The table below summarizes one-time funding provided to the department for the 2017-19 biennium.

Health information network expansion project	\$43,555,133
Electronic payment processing system	375,000
Statewide interoperable radio network loan	15,000,000
Total	\$58,930,133

Health information network expansion - In Section 1 of Senate Bill No. 2021, the 2017 Legislative Assembly appropriated \$43.6 million for the North Dakota Health Information Network (NDHIN) expansion project, a project designed to provide for the secure exchange of health information to enable clinical users such as providers, nurses, and clerical staff to easily and efficiently view information relating to a patient's electronic medical records.

Of the amount appropriated to ITD, \$40.5 million is from federal funds distributed by the federal Centers for Medicare and Medicaid Services to the Department of Human Services. Federal funds are available through a Medicaid advanced planning document and require a 10 or 15 percent match. The matching funds will be generated from billings to providers, payers, and from the electronic health information exchange fund. Funding will be available for the project through the anticipated completion date of September 2021.

Status/Result

All 6 FTE positions were removed effective July 1, 2017. All positions were vacant at the time of removal.

See the **health information network expansion, electronic payment processing system, and statewide interoperable radio network** sections below.

Through March 2018 ITD has not received any funding from the Department of Human Services through the Centers for Medicare and Medicaid Services for the NDHIN expansion project. Through March 2018 the department has spent \$347,771 on the health information network expansion using special funds available in the electronic health information exchange fund. The Information Technology Department anticipates \$12 million of federal funding will be received during the 2017-19 biennium and anticipates spending a total of \$14 million on the NDHIN expansion project during the biennium.

Electronic payment processing system - Section 10 of Senate Bill No. 2021 provides for Bank of North Dakota loans, appropriated to certain state agencies for the purpose of implementing a new electronic payment processing system related to merchant credit card fees. Section 11 of the bill provides for the repayment of the loans using special funds derived from additional revenue received as a result of the new system.

The following schedule lists the agencies authorized to receive a loan from the Bank of North Dakota during the 2017-19 biennium, the maximum amount the agency may borrow, and the amount appropriated to each agency for repayment of the loans:

Agency	Loan Amount Authorized	Loan Repayment
Department of Transportation	\$147,000	\$159,000
Secretary of State	93,000	101,000
Parks and Recreation Department	42,000	46,000
Game and Fish Department	36,000	39,000
Workforce Safety and Insurance	36,000	39,000
Highway Patrol	21,000	23,000
Total	\$375,000	\$407,000

The agencies listed above will remit funding necessary for the electronic payment processing system to ITD resulting in a special fund appropriation of \$375,000 in the ITD budget for the cost of implementing the system. It was estimated during the 2017 legislative session that the electronic payment processing system would result in approximately \$3.8 million of savings for these six agencies during the 2017-19 biennium.

While only the six agencies listed in Senate Bill No. 2021 are authorized to obtain loans from the Bank of North Dakota for the electronic payment processing system, other agencies are not precluded from implementing an electronic payment processing system.

The Bank of North Dakota has finalized a master agreement with J.P. Morgan Chase Bank and has met with representatives of the six agencies listed in Senate Bill No. 2021. All six agencies have declined implementation of the electronic payment processing system. Therefore, ITD has not spent any of the \$375,000 appropriation provided for the project. The following is a summary of the reasons for each agency declining implementation of the electronic payment processing system.

Department of Transportation	The department is concerned that charging customers for credit card transaction fees will deter the public from using credit cards, while increasing the number of check and cash transactions, resulting in additional staff time needed to process these transactions.
Secretary of State	The Secretary of State is concerned that charging customers for credit card transaction fees will deter the public from using credit cards, while increasing the number of check and cash transactions, resulting in additional staff time needed to process these transactions.
Parks and Recreation Department	The department already charges reservation fees for the online reservation system, which covers the costs of department merchant credit card fees.
Game and Fish Department	The department already charges customers a certificate fee that exceeds the merchant credit card fees paid by the department.
Workforce Safety and Insurance	Workforce Safety and Insurance is concerned that charging customers a fee for credit card transactions would delay the collection of outstanding accounts.
Highway Patrol	The Highway Patrol is concerned that charging customers for credit card transaction fees will deter the public from using credit cards, while increasing the number of check and cash transactions, resulting in additional staff time needed to process these transactions.

The Department of Labor and Human Rights and Job Service North Dakota voluntarily elected to implement the electronic payment processing system. The Department of Labor and Human Rights' system was implemented in March 2018 at no cost to the department. The system is limited to processing requests for public records. The unemployment insurance task contribution portion of the Job Service North Dakota system was implemented in March 2018 and the new jobs training portion of the system was completed in June 2018. There was no cost to Job Service North Dakota to implement the electronic payment processing system. The work was primarily performed by Job Service North Dakota information technology staff and work performed by ITD staff was included in the maintenance contract between Job Service North Dakota and ITD.

Statewide interoperable radio network - In Section 1 of House Bill No. 1178, the Legislative Assembly established a SIRN fund for the development and maintenance costs related to SIRN.

Section 4 of the bill amended North Dakota Century Code Section 57-40.6-02 to require political subdivisions to add a fee of \$0.50 to the fee imposed on assessed communication services. The additional \$0.50 per communication connection must be remitted to the State Treasurer for deposit in the SIRN fund.

Section 6 of the bill requires ITD to begin implementation of SIRN during the 2017-18 interim.

Section 7 of the bill authorizes ITD to obtain a loan of \$15 million from the Bank of North Dakota and appropriates the funds to the department for SIRN. The term of the loan may not exceed 6 years and must be repaid from funds available in the SIRN fund.

In Senate Bill No. 2021, the Legislative Assembly authorized special fund spending authority of up to \$13.7 million related to SIRN during the 2017-19 biennium. Of this amount, \$9.6 million is the amount the department estimated would be collected during the 2017-19 biennium from the additional \$0.50 imposed on assessed communication services.

The department's total appropriation for SIRN for the 2017-19 biennium is \$28.7 million, of which \$24.6 million is the amount the department anticipated would be available during the 2017-19 biennium.

Line item transfers - Section 4 of Senate Bill No. 2021 authorizes the Office of Management and Budget to make transfers of funds between line items of ITD as may be requested by the Chief Information Officer as necessary for the development and implementation of information technology projects.

Information Technology Department services and rates study - Section 8 of 2017 Senate Bill No. 2001 provides for the Legislative Management to consider studying the delivery and cost of ITD's services provided to state agencies. The study must include a review of the department's cost of services, staffing, and billing processes and must identify improvements to the efficiency and effectiveness of the department's services that will result in reduced costs for state agencies.

Cloud computing initiatives - During the 2017-18 interim, ITD began transitioning state government systems and applications from current data centers to cloud-based platforms because the department believes the current on-premise technologies are becoming obsolete and many new systems are cloud-based. The department has stated the transition will provide security, operational, and cost advantages while increasing data storage capabilities and improving system up-times and backups.

The department issued a request for proposal in November 2017 and anticipates a contract will be entered with a vendor by July 1, 2018. Through March 2018, 34 counties have signed the SIRN frequency project memorandum of understanding to ensure collaboration among counties for the project.

Through March 2018 the balance of the SIRN fund was \$2.2 million as a result of the additional \$0.50 fee imposed on assessed communication services. The revenue received has been less than anticipated but it is unknown whether this is due to the timing of payments being transmitted from counties to the State Treasurer's office or due to fewer communication devices available to assess. A revised estimate of the total amount of revenue expected to be generated from the additional \$0.50 fee during the 2017-19 biennium is unavailable at this time.

Through March 2018 the department has spent \$35,087 on SIRN and has not borrowed any funds from the Bank of North Dakota. The department anticipates borrowing funds from the Bank during fiscal year 2019.

Through March 2018 no transfers between line items have been made. The department does not anticipate any line item transfers will be necessary during the 2017-19 biennium.

The Legislative Management assigned this duty to the interim Information Technology Committee. The Information Technology Committee surveyed state agencies regarding the services provided by ITD, the rates charged for these services, and overall satisfaction with the department. Through March 2018 the committee has received testimony from ITD and several state agencies. The potential results of the study are unknown at this time.

The department's strategy includes making North Dakota information technology "cloud first", which means new information technology systems will be evaluated for deployment in the cloud as the first option and current information technology systems will be evaluated for a transition to the cloud. Current information technology systems will not be automatically placed in the cloud and all system transitions to the cloud will be made in collaboration with agency personnel responsible for the system and data.

The department currently has contracts to allow the purchase of cloud services from Microsoft, Amazon, IBM, and Oracle. The contract with Microsoft was renewed in May 2017 and the Amazon contract was renewed in July 2017. The department is in negotiations with Microsoft to consolidate over 60 state contracts for better pricing and to determine if standardizing Office 365 for all of state government is fiscally viable. The contracts do not currently obligate department funding for the 2019-21 biennium, but this may change before the 2019 legislative session.

The department has stated while the costs of cloud computing services are approximately equal to on-premise technology costs currently, cloud computing will offer cost-savings in approximately 5 years. When the department transitions North Dakota data to the cloud, the state will retain control of the data, not the cloud provider. As state data is transitioned to the cloud, the department will continue to collaborate with Dakota Carrier Network (DCN) to provide faster service speeds. The department believes the increase in service speed can be obtained within the current department budget and any additional equipment necessary for the increase service speeds will be purchased by DCN. The department will attempt to include the cost of cloud services in the current department rate structure, rather than increasing rates and requiring state agencies to include the cost of cloud services in their agency budgets, although cloud costs may be incorporated into department rates in the future.

Through March 2018 the department has spent \$45,000 on cloud computing, of which \$30,000 is for a Microsoft Azure cloud platform and \$10,000 is for an Amazon cloud platform. The expenditures include direct cloud service costs and software-as-a-service costs, which are paid from the department technology fee and other available department funding. The number of systems that would require 2017-19 biennium funding to transition to cloud services is unknown at this time.

The state currently has seven service management systems and four application development models. The unification plan would reduce the number of management systems and development models to one each. The unification plan initially included over 700 FTEs in ITD and the Governor's cabinet agencies but after a workforce transition process evaluation, the department determined 513 FTEs would be included in the unification plan, of which 344 FTEs are ITD staff. The information technology staff in other Governor's cabinet executive branch agencies will remain in their current agency during the 2017-19 biennium, but will also report to supervisors in ITD and ultimately, the Chief Information Officer. The department does not anticipate a significant number of these information technology employees will be relocated to the ITD building.

Currently, the department focuses 91 percent of information technology FTEs and resources to running operations, 9 percent to growing information technology, and 0 percent to transforming information technology. The unification plan and cloud computing initiatives will allow state information technology employees and resources to be allocated 50 percent to running operations, 30 percent to growing information technology, and 20 percent to transforming information technology. The department estimates the unification plan will provide a 15 to 22 percent increase

Information technology shared services unification initiatives -
During the 2017-18 interim, ITD began a shared service unification plan that includes consolidating information technology services, such as desktop support, help desk services, and information technology personnel in the Governor's cabinet of executive branch state agencies. The unification plan is intended to improve information technology productivity by establishing common systems and processes for communication and collaboration among executive branch agencies. The unification plan will focus on cost reduction and operational efficiencies and provide data hosting, storage, and achieving opportunities. The department believes the unification plan will reduce redundancies in executive branch agencies, decrease enterprise risk, improve information technology investment success, and maximize cyber defense.

in information technology work efficiency within 4 years of the unification plan implementation.

The unification plan includes a reorganization of top positions in the department, including the establishment of five positions that will report directly to the Chief Information Officer-- Chief Operations Officer, Chief Data Officer, Chief Technology Officer, Chief Reinvention Officer, and Chief Information Security Officer. The department has attempted to make these five positions nonclassified, but the State Personnel Board has not granted this request, instead requiring the positions to remain in the classified employee system.

The Deputy Chief Information Officer has assumed the role of Chief Operations Officer, as the Chief Operations Officer position replaces the Deputy Chief Information Officer position, while the department's Information Security Division Director has assumed the role as the Chief Information Security Officer. The department anticipates hiring the remaining three positions during the 2017-19 biennium. The increased cost of the new positions during the 2017-19 biennium will be paid from salary savings from vacant positions.

The department continues to develop the unification plan and will present additional information to the 2019 Legislative Assembly.